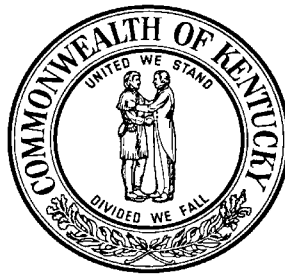


**REPORT OF THE AUDIT OF THE
CUMBERLAND COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

June 11, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CUMBERLAND COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

June 11, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Cumberland County Sheriff as of June 11, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,042,994 for the districts for 2001 taxes. The Sheriff distributed taxes of \$998,741 to the districts for 2001 Taxes. Taxes of \$566 are due to the districts from the Sheriff.

Report Comment:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$631,756 And Enter Into A Written Agreement To Protect Deposits

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2001 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Donna Thurman Knight, Cumberland County Judge/Executive

Honorable James Pruitt, Cumberland County Sheriff

Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the Cumberland County Sheriff's Settlement - 2001 Taxes as of June 11, 2002. This tax settlement is the responsibility of the Cumberland County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Cumberland County Sheriff's taxes charged, credited, and paid as of June 11, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 9, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Donna Thurman Knight, Cumberland County Judge/Executive

Honorable James Pruitt, Cumberland County Sheriff

Members of the Cumberland County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$631,756 And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
August 9, 2002

CUMBERLAND COUNTY
JAMES PRUITT, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

June 11, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 92,569	\$ 229,904	\$ 396,073	\$ 206,383
Tangible Personal Property	6,561	15,801	27,210	31,305
Intangible Personal Property				13,030
Fire Protection	3,367			
Increased Through Erroneous Tax Assessments	6	15	26	14
Franchise Corporation Taxes	8,254	19,884	35,161	
Oil and Gas Property Taxes	309	768	1,324	690
Penalties	1,170	2,942	5,085	2,580
Adjusted to Sheriff's Receipt	93	240	386	196
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	\$ 112,329	\$ 269,554	\$ 465,265	\$ 254,198
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	\$ 431	\$ 1,063	\$ 1,831	\$ 954
Discounts	1,402	3,348	5,763	3,489
Delinquents:				
Real Estate	3,894	9,548	16,450	8,571
Tangible Personal Property	112	270	478	705
Uncollected Franchise Corporation Taxes	6	13	24	
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	\$ 5,845	\$ 14,242	\$ 24,546	\$ 13,719
	<hr/>	<hr/>	<hr/>	<hr/>
Net Tax Yield	\$ 106,484	\$ 255,312	\$ 440,719	\$ 240,479
Less: Commissions *	4,813	10,737	17,629	10,508
	<hr/>	<hr/>	<hr/>	<hr/>
Net Taxes Due	\$ 101,671	\$ 244,575	\$ 423,090	\$ 229,971
Taxes Paid	101,614	244,435	422,796	229,896
	<hr/>	<hr/>	<hr/>	<hr/>
Due Districts as of		**		
Completion of Fieldwork	\$ 57	\$ 140	\$ 294	\$ 75
	<hr/>	<hr/>	<hr/>	<hr/>

* and ** See Page 4

CUMBERLAND COUNTY
JAMES PRUITT, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
June 11, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	546,579
4% on	\$	486,414

** Special Taxing Districts:

Library District	\$	37
Health District		18
Extension District		43
Soil Conservation District		19
Ambulance District		23
		<hr/>
Due Districts	\$	<u>140</u>

The accompanying notes are an integral part of the financial statement.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENT

June 11, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CUMBERLAND COUNTY
 NOTES TO FINANCIAL STATEMENT
 June 11, 2002
 (Continued)

Note 2. Deposits (Continued)

As of June 11, 2002, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of December 3, 2001 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$631,756 of public funds uninsured and unsecured. The Sheriff did have a written agreement with the depository institution securing the Sheriff's interest in the collateral, however the agreement was not approved by the board of directors and reflected in the minutes of the board until December 21, 2001.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 3, 2001.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Uncollateralized and uninsured	<u>631,756</u>
Total	<u><u>\$ 731,756</u></u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2001 through June 11, 2002.

Note 4. Interest Income

The Cumberland County Sheriff earned \$2,255 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Cumberland County Sheriff collected \$8,942 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Cumberland County Sheriff collected \$523 of advertising costs and \$1,515 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

CUMBERLAND COUNTY
JAMES PRUITT, SHERIFF
COMMENT AND RECOMMENDATION

June 11, 2002

The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$631,756 And Enter Into A Written Agreement To Protect Deposits

On December 3, 2001, \$631,756 of the Sheriff's deposits of public funds were uninsured and unsecured. As of December 6, 2001, the bank did pledge securities of \$485,000 to protect deposits. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response:

Will raise the pledge of securities from November 1st until on or about February 31st. We have obtained a written agreement at this time.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Donna Thurman Knight, Cumberland County Judge/Executive

Honorable James Pruitt, Cumberland County Sheriff

Members of the Cumberland County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Cumberland County Sheriff's Settlement - 2001 Taxes as of June 11, 2002, and have issued our report thereon dated August 9, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Cumberland County Sheriff's Settlement -2001 Taxes as of June 11, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$631,756 And Enter Into A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cumberland County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 9, 2002

